

CHALLENGES OF PRIVATE FINANCING OF BUILDING PROJECTS IN LAGOS STATE, NIGERIA

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Abstract

The outcome of an impact could be negative or positive. Challenges could pose serious problems, in form of time taken to overcome them, conditions that are to be met to overcome the challenges, and so on. Based on these, the study was initiated. A structured questionnaire survey was conducted in Lagos State. The sampling frame consists of: architects; clients; contractors; quantity surveyors, and engineers. Probability sampling was used for sample selection. Relative to this study, the findings are in two parts, those of the challenges of private financing and of the impact stemming from the challenges. The findings from the challenges to private financing include: poor system of government; high interest rates of banks, and inadequate legislation and gaps in existing statutes adversely affect financing of project. Findings regarding impact of the challenges are: difficulty in loan acquisition; low income earnings on investment, and monopoly of building materials, these negatively affect project delivery. Recommendations were made based on the findings.

Keywords

Challenges, Financing, Building Projects, Private Construction

1. Introduction

House is the third most important need of man after food and clothing. Housing helps to fulfill man's social needs; such as, protection against harsh inclement weather, privacy, and social well-being Bolaji (2006). The importance of housing cannot be over emphasized. Housing serves as the engine room for any meaningful development. Prior to the take off of operations of any organization, plant, and industry, it requires a house to operate in.

However, for sustainable of building projects delivery in our urban centers, particularly Lagos metropolitan area, there is the need for private developers to facilitate the provision of funds in sufficient numbers and at reasonable costs, with the use of durable, cheap and culturally relevant materials. Olomolaiye (1999) is of the opinion that building projects in a developing country face three major problems, which consequently result into delays. Firstly, is the problem imposed by the industry's infrastructure such as training, plant availability and material supply? Secondly, inaccurate information and frequent chain of instructions and failure to meet obligations on the part of clients and consultants, and thirdly are those delays imposed by the contractor shortcoming. The World Bank (1996) report notes that two of the most critical urban development issues facing Nigeria are the financing of urban infrastructure and the institutional

arrangements for house building delivery in urban centers. Meanwhile, the provision of basic utilities and services is partly the responsibility of the government, which has been handicapped in recent times by declining financial resources, political instability and many other factors. In view of the abovementioned factors and many others, this study tends to focus on the impact of the challenges of private financing in the delivery of building projects in Lagos State, Nigeria. The study will consider the basic financing options and adequate remedies that can be put in place to eliminate or reduce the effects of the challenges of private financing in the delivery of building projects in Nigeria.

2. Literature Review

2.1 Conditions of Houses in Lagos

According to Simon (2010), metropolitan Lagos is 1.183 square kilometre in terms of size and represents 33% of the total area of Lagos State (3.577sqkm). In the year 1871, the estimated population of Lagos was 28,518 and these lived on 4sqkm area of land. By the year 1931, the population have grown to 126,108 and the land area expanded to 62sqkm through land filling. In 1952 the population of metropolitan Lagos had reach 346,137, the land expansion had increased to 62.8sqkm including some rural settlements. In 1978, the population increased to 3.8 million and in 1979 it was 4.13 million. The rapid urban growth experienced was as a result of economic, social, and political forces, which cause migration to the city (rural-urban). Lagos population was projected to 11.85 million by the year 1997, 13 and 21.4 million in the years 2001 and 2015 respectively, these without any meaningful housing provision or planning to meet future needs of housing, based on these population projections.

The following describe housing conditions in Lagos before the year 1979.

Housing provision by Private Financing for people, could be classified into, the rich and poor. The old neighbourhoods residential of Mushin, Somolu, Bariga, Olodi-Apapa, Isolo, Oshodi, Sogunle, Mafoluku, Agege and the recent expansion into former urban fringe areas like Idimu, Egbe, Ikotun, in Alimosho LGA; and Ojo, Ajagbandi, Lemba-Hausa, along the Badagry corridor provide housing for the poor. These houses are usually over crowded, lack basic services and amenities required for a healthy living. These parts accommodate over 70 per cent of the 15million Lagos population. Wilbur Smith (1979) revealed that 96 per cent of such houses were structurally fair, while 4% were in poor and unsound condition likely to require demolition by year 2000. Most of the houses lacked steady supply of pipe borne water and rely on water wells or tanker water. 75% relied on septic tank method of sewage disposal, 11 per cent on bucket or pail system of disposal and, 14% had pit latrines. The master plan for metropolitan Lagos for the period (1980–2000) which was sponsored by the UNDP, accurately analysed the housing needs of Lagos and recommended that between 1980 and 2000, 1.4 million additional housing units should be constructed out of which, a million should be deliberately earmarked for the low-income households. By the year 2000 when the plan expired, not more than ten percent of the housing needs were satisfied.

2.2 The Role of Government Regarding Provision Of Housing

The National Housing Policy of the Federal Government initiated to address the severe shortages and high cost of house buildings embraces the private sector contribution to housing shortages

and request the government to become an enabler, promoter, and facilitator, instead of being a direct implementer.

Akeju (2007) supports the argument that it is wrong for government to take on the responsibility of building houses for her citizenry, because experience has indicated that it is unsustainable in the long run. Olotuah (2005) observes that the inability of the government to define its role, quantity of the needs of the populace and the lack of political will to tackle housing problem has led to the intervention of the private sector to providing housing in Nigeria.

2.2.1 The colonial era

During this era, emphasis was on the provision of quarters for the expatriates and for the few selected indigenous staff in specialized occupations, such as, the railways, police, and top government functionaries. This gave birth to Government Residential Areas (GRAs) and a few African Quarters. The Government had no intention and did not build houses for sale or rent.

The bubonic plague in Lagos resulted in the formation of the Lagos Executive development Board in 1928. The board built the Workers Housing Estate in Surulere, Akinsemoyin and Eric Moore housing estate Surulere, Workers House Estate (Phase II) Surulere, and the Freehold Housing Estate phase II Surulere all in Lagos. The above explains the first direct government intervention in solving problems of housing in Lagos and in Nigeria.

In addition, two bodies were established in 1956, the Nigeria Building Society (NBS) and African Staff Housing Fund, they are primarily to provide loans for house building. Little success was recorded of these bodies.

2.2.2 Post independence period (1960 – 1979)

The National Council of Housing was established in 1972, and a target of 59,000 housing units was set to be constructed throughout the nation. This was divided in 15,000 units apportioned to Lagos, and 4,000 units in each of the then eleven state capitals. In 1973 the Federal Housing Authority was established to coordinate a nationwide housing programme and the government adopted a five-year development plan. The Federal Government proposed a total of 202,000 housing units for construction in the nation, with fifty thousand (50,000) units to be constructed in Lagos and eight thousand (8,000) in the state capitals in the period 1970 – 1980. Worth of note is that less than 15% of these projections were achieved (FGN, 2004).

In 1975, the Federal Ministry of Housing, Urban Development and Environment was created, which had the responsibility of monitoring and coordinating the policies in housing matters.

2.2.3 The second civilian republic (1979 – 1983)

During this period, a lot of attention was given to provision of accommodation for low-income earners. Forty thousand (40,000) housing units were to be built yearly throughout the nation. Eighty percent (80%) were earmarked for low-income earners. At the end of year 1983, 70% achievement was made, while the second did not kick off.

The Federal Housing Authority (FHA) was later saddled with the responsibility of housing provision on commercial basis for medium and high-income earners. A plan of 350 house unit construction was set for each state, in this impact was not felt. At this point various states, established their housing corporations.

2.2.4 Post second civilian administration (1986 – 2000)

In the year 1991, the National Housing Policy of Nigeria was formulated and its goal was to ensure ease access of citizens to adequate and affordable housing for all Nigerians by the year 2000. A total of eight (8) million housing units was established to be the required to solve the existing and future needs of housing. In order that this policy be successful, some programmes were put in place, which are:

- i) An implementation committee on housing policy was set up;
- ii) A housing policy council was set up to monitor and evaluate housing policy;
- iii) Empowerment of the Federal Mortgage Bank by decree No 53 of 1989 to give license to mortgage institutions;
- iv) New housing scheme initiated (1994) and proposes to build 121,000 housing units in state capitals. Only 1114 housing units was built (Kado estate in Abuja) in the federation Benjamin, 2000)
- v) The federal Government in the year 2004 proposed the construction of 18,500 housing units in the nation, with 500 minimum in each state capital. This took off in Ekiti state in April, 2005 without completion.

2.3 Challenges Facing the Private Sector in Financing of Building Projects in Lagos State

Building project development is it public or private is increasing in geometric form in Lagos. This notwithstanding is not without challenges, particularly from the private view point. According to Akeju (2007), the Nigerian Housing Building Market is highly untapped and undeveloped despite lot of opportunities that abound in the sector. The reasons attributed to this phenomenon are: lack of depth in debt capital market (Olotuah, 2005; FGN, 2004, and Buckley *et al.*, 1993); global economic downturn (NISER, 2010, Olokesusi and Olorunfemi, 2008); lack of Tax Incentives; country risks; absence of political will; weak local banks; bureaucracy; land and Housing Policies, and inadequate legislation and gaps in existing statutes.

2.4 Ways of Eliminating Challenges Facing Private Financing in the Delivery Of Building Projects In Lagos State

The various ways in which the private sector could contribute to reducing the challenges posed by housing to the Lagos state citizen include:

- i) Adequate source of project finance (Hoffman, 2007);
- ii) Identification and evaluation of risk;
- iii) Effective risk allocation (Hoffman, 2007);
- iv) Effective Sponsors' and lenders' risk (Doyin, 2006);
- v) Bankability i.e. strengthened of weak banks (Ojuola and Martin, 2012);
- vi) Security in project finance etc.
- vii) Effective implementation of government policies to adopt new technology and materials (FGN, 2004);
- viii) Improvement on socio-economic development in increasing the purchasing power of the citizens (Ogunlana 2010 and DFID 2007);
- ix) Proper execution of law and order (Adeniyi, 2008);
- x) Proper implementation of tax incentives during acquisition of land, security title and security of tenure (Nkem, 2009);
- xi) Qualitative professionals in the building industry (Molander, 1996);

- xii) Encouragement of foreign partners and investors by the government in housing sector, and
- xiii) Adequate security to project finance.

3. Research Methodology

3.1 Sample Frame

This research gathered information from various professionals which include the contractors and consultants as the Builders, Quantity Surveyors and Estate surveyors / Developers who are known through their professional bodies such as the Nigeria Institute of Architects (NIA), Nigeria Institute of Builders (NIOB), Nigeria Institute of Quantity Surveyors (NIQS) were the targeted respondents, all are involved in private building construction.

3.2 Sample Size

A total of seventy (70) structured questionnaire were administered to the contractors and consultants in the private building industry which constitute the active player in the building construction industry. Out of the 70 questionnaire, only 65 questionnaires were retrieved from the respondents.

3.4 Sampling Techniques

As a survey research, all data collected after the administration of the questionnaires were quantitatively analyzed. Specifically, the entire research questions set to guide this study was handled using descriptive statistics such as mean, frequency and percentage. Ranking correlation was used to analyze the results obtained. The 65 questionnaire returned were adequate analyzed.

3.5 Data Collection Instrument

The data collection instruments that were used were based on primary data and secondary data. The primary data used for this study was well structured questionnaire. The respondents' were asked various questions which involved challenges of private financing, financing options, the impact of the challenges they faced in the process of financing projects. In conclusion, the study also discussed ways of eliminating the challenges confronting the private financing in the delivery of building projects. The secondary data constitute the collection of information from journals, textbooks, magazines of relevant literatures.

3.6 Data Presentation And Analysis

This section presents the data obtained for this study and discussion of the analysis.

Table 1: Summary of Background Information of Respondents

CATEGORY	CLASSIFICATION	FREQUENCY	%
Type of organization	Contractor	42	64.6
	Consulting	23	35.4
TOTAL		65	100.0
Academic Qualification	HND	24	37.0
	PGD	21	32.3
	B.Sc. / B.Tech.	14	21.5
	M.Sc./M. Tech.	6	9.2
	PHD	0	0
TOTAL		65	100.0
Designation of Respondent	Architect	9	13.9
	Quantity Surveyor	21	32.3
	Builder/Building	20	30.8
	Estate Surveyors/ Developers	15	23.0
TOTAL		65	100.0
Professional Qualification	MNIQS/FNIQS	15	36.6
	MNIOB/FNIOB	7	17.1
	MNSE/FNSE	9	22.0
	MNIA	6	14.6
	OTHERS	4	9.7
	TOTAL		41
Experience of Respondent	1-5	9	13.8
	6-10	7	10.8
	11-15	24	37.0
	16-20	15	23.0
	Over 20	10	15.4
	TOTAL		65

Table 1 presents the summary of respondents surveyed. Based on these data obtained for the study, the data can be deemed reliable.

Table 2: Challenges Of Private Financing In The Delivery of Building Projects In Lagos State

CHALLENGES	MEAN SCORE	RANKING
Poor system of government	4.49	1 st
High interest rates of banks	4.40	2 nd
Inadequate legislation and gaps in existing statues	4.29	3 rd
Lack of socio-economic development	4.15	4 th
Allocation of funds	3.79	5 th
Weak local banks	3.74	6 th
Lack of tax incentives	3.73	7 th
Non availability of materials	3.69	8 th
Lack of continuity in government	3.68	9 th
Absence of political will	3.64	10 th
Land and housing policies	3.59	11 th
Global economic downturn	3.58	12 th
Country risks	3.55	13 th
Lack of depth in debt capital market	3.51	14 th

Table 2 indicates the challenges of private financing in the delivery of building projects in Lagos state. It is worth noting that all the factors have significant influence on private financing of building projects, considering that all the factors have mean score greater than 3. The most rated challenge is poor system of government (MS=4.49). Due to the fact that the Nigeria government is being faced with various flaws in its administration, such as, corruption, selfishness, unfaithfulness, non-transparency of leaders, politicization. These have affected the continuity of programmes. Next in rating is high rates of bank interest (MS=4.40). High interest rates discourage borrowing. Capital invested in the procurement of a facility in the building industry takes a long time, before it is recovered. This stands as an additional factor that discourages borrowing. Following this factor is inadequate legislation and gaps in existing statues (MS=4.29) to govern the activities of financing organizations, this in form of catalog guide lines and penalty for defaulter. The least of the factors of challenges that have negligible effects on private financing are lack of depth in debt capital market (MS=3.51) and country risk (MS=3.55). These have little or no effect on private financing relative to building projects.

Table 3: Impact Of Challenges Of Private Financing In The Delivery of Building Projects In Lagos State

IMPACT	MEAN SCORE	RANKING
Difficulty in loan acquisition	4.58	1
Low income earnings	4.39	2
Monopoly of building materials	4.37	3
Unaffordable land purchase for low income earners	4.10	4
High rate of rents	4.15	5
Loss of time	3.89	6
Delay in project delivery	3.85	7
Completion risks	3.75	8
Jeopardize and forfeit proper planning of layout	3.67	9
Discourage project evaluation / monitoring unit	3.66	10
Overcrowding of buildings	3.61	11
Loss of confidence in government programmes	3.60	12
Low level of economic performance	3.52	13
Result in untimely death	3.51	14

Table 3 presents the impacts of the challenges of private financing in the delivery of building projects in Lagos. The most rated factor is difficulty in loan acquisition (MS=4.58), stringent and unrealistic conditions required before granting of loans have made it difficult to build at a high level. It has resulted in marginal increase relative to house building. Next to this factor is low income earnings (MS=4.39). Nigeria workers are among the least paid in the world. Materials for construction are expensive, these have made it difficult for most people to build as a result of low earnings. Following this factor is monopoly of building materials (MS=4.37). This results in monopoly of price, and hence, high cost of materials for building construction. The least factors relative to the impact of the challenges of private financing is untimely death (MS=3.51). This is rare, because alternative means to owning a house could be sort, such as, renting of apartment. Low level of economic performance (MS=3.52) followed. This doesn't add to the earning capacity of intending builders, therefore, little or no meaningful impact is felt, and loss of confidence in government programmes (MS=3.60). This is as a result of poor system of governance, inadequate legislation, and gaps in existing statutes.

Table 4: Private Financing Options In The Delivery of Building Projects In Lagos State

OPTIONS	MEAN SCORE	RANKING
Finance from the resources (equity) of the promoters/sponsors of the projects	4.65	1 st
Allocation of funds by the government	3.45	2 nd
Loan financing by strict institutional financing firms, local banks etc	3.05	3 rd
Sourcing of funds from foreign partners / investors	2.68	4 th
Sourcing of funds from debt capital markets (bonds/notes)	2.35	5 th

Table 4 reveals the various financing options available to people with regards to private financing. The commonest is finance from the resources of the promoter or sponsors (MS=4.65). The most viable option for private financing of building projects in Lagos is this option. This is normally very small and takes a long period to accumulate in order to become reasonable for a housing project to be embark on. Next to this factor is allocation of funds by the government (MS=3.45). This comes via the Federal Mortgage Institutions, and often times difficult to access, as a result of unfavourable conditions required to access the fund. The least option available to sponsors is fund from debt capital market (MS=2.35). This is just beginning to get their footings in Nigeria, therefore, access to this kind of fund is low.

Table 5: Ways of Eliminating Challenges Of Private Financing in the Delivery of Building Projects In Lagos State

WAYS	MEAN SCORE	RANKING
Effective implementation of government policies	4.56	1 st
Adequate provision of project finance	4.42	2 nd
Bankability	4.17	3 rd
Improvement on socio-economic development	4.10	4 th
Effective sponsors and lenders risk	4.08	5 th
Proper execution of law and order	4.00	6 th
Effective capitalization of weak local banks	3.80	7 th
Encouragement of foreign partners/investors by the government in housing sector	3.65	8 th
Adequate security to project finance	3.56	9 th
Proper identification and evaluation of risk	3.42	10 th
Effective risk allocation	3.38	11 th
Proper implementation of tax incentives	3.01	12

Table 5 presents the various ways of eliminating challenges to private financing of building projects in Lagos. The top rated way is through effective implementation of government policies (MS=4.56). Monitoring bodies constituted to evaluate the effectiveness of government policies regarding financing institutions and housing provision may help in eliminating the challenges of private financing in Lagos state. Funds should be disburse for the purposes they are provided for and not for other businesses. Adequate provision of project finance (MS=4.42) is rated next. In order to avoid these challenges, enough provision should be made in terms of finance before embarking on building projects. The third most rated way of eliminating challenges of private financing is through bankability. Sponsors are advised to develop relationship with banks in order to be able to secure loans.

The least ways, which have the least impact relative to minimisation of challenges of private financing are, project implementation of tax incentives (MS=3.01), effective risk allocation (MS=3.38) and proper identification and evaluation of risk (MS=3.42).

4. Conclusion and Recommendation

4.1 Conclusion

Stemming from the analysis of data obtained from this study, the following conclusions were reached. The main challenges of private financing of projects are:

Difficulty in the acquisition of loans, and high interest rates of banks which discourages private financing of projects;

Poor system of government relative to the implementations of the various policies, and

Inadequate legislations and gaps in existing statutes.

4.2 Recommendation

The following recommendations were made based on the conclusions reached from the analysis of data:

Government should be actively involved relative to policy formulation and implementation regarding housing provision by stipulating a minimum rate of interest of bank loans;

Being transparent and pragmatic in its system of government and policy making and implementation, and

Government should harmonize the inadequacies and gaps in existing statutes.

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